

CO-OPERATIVES AND THE STATE

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1. BACKGROUND.

- 1.1 This paper seeks to derive and establish certain principles and practices based on Victoria's experience with the establishment and development of co-operative business enterprises since April 1981. As of 21 November 1983, 19 co-operatives/groups were being supported.
- 1.2 Victoria's Co-operative Development Program is administered by the Ministry of Employment and Training. Financial and technical assistance is provided. The current structural arrangements for the delivery of the Program are as follows:
 - 1.2.1 Co-operative education is based on two courses being developed by Preston TAFE - Co-operative Intenders and Co-operative New Enterprise courses.
 - 1.2.2 Co-operative business consultancy provided for Melbourne Metropolitan co-operatives by Preston TAFE and for country co-operatives by Ballarat CAE.
 - 1.2.3 Co-operative bookkeeping services provided by the Collingwood-Richmond-Fitzroy Credit Co-operative.
 - 1.2.4 Loans for fixed and current assets and grants for operating and developmental costs provided by the Ministry of Employment and Training advised by a CDP Funding Committee.*
- 1.3 The 19 co-operatives/groups currently being supported are start-up co-operatives - co-operatives which were established as a result of funding or which operated on a pre-business basis before funding. The co-operatives can be broadly categorised as follows:
 - 1.3.1 Worker-based(10). Workers are the only/majority members. Non-workers may be members but workers constitute all/majority of members (owners) and directors.
 - 1.3.2 Community-based (9). Membership is open to workers and non-workers. Non-workers, however, constitute a majority of members (owners) and directors.

*

Current membership of the CDP Funding Committee is as follows: MEAT(2), Small Business Development Corporation(1), Department of Labour and Industry(1), Co-operative Federation of Victoria(1), Registry of Co-operatives (1) and funded co-operatives(3). It is proposed that the membership be increased to more effectively represent worker and financial interests with two representatives each from the Trades Hall Council and the Victorian Credit Co-operatives Association.

- 1.4 The co-operatives are demonstrating the possibility of and desirability of democratising work and workplaces. Democratic decision-making structures and processes are not necessarily inefficient.
- 1.5 An evaluation of the co-operatives by Cruickshank Management Resources Pty Ltd has concluded that 75% of the co-operatives could or would become economically viable.
- 1.6 The problem with these start-ups is not their economic viability but rather their small scale (averaging five workers) and non-mainstream economic activity (alternative media and food).
- 1.7 Co-operators tend not to be trade union members and unions tend not to recruit co-operative workers. This tends to divide co-operators from unionists and, therefore, inhibits existing co-operatives from identifying with trade unions and discourages trade unions from assisting the development of mainstream co-operatives.
- 1.8 While it is intended that assistance will continue for start-ups, priority to these problems are now being addressed by giving priority to converting companies into co-operatives. Discussions are already proceeding with four potential conversion co-operatives which are mainstream, unionised and employ 13, 31, 63 and 189 workers respectively.
- 1.9 It is also expected that there will be a major development in the provision of long-term financial assistance. The Collingwood-Richmond-Fitzroy Credit Co-operative has been commissioned to examine the options for financial assistance. The most promising option seems to be the utilisation of existing co-operative financial institutions - the credit co-operatives. The Victorian Credit Co-operative Association supports this possibility if it proves to be feasible. This possibility appears to avoid the limitations of the Common Ownership Finance Company in N.S.W.*
- 1.10 Support for co-operatives is now based on four inter-related broad criteria:
 - 1.10.1 Actual and/or potential economic viability - market and product, workforce skills, leadership capability and capital requirements.
 - 1.10.2 An understanding of and commitment to co-operative principles and practices.

*

COF's income depends on annual government grants, interest and principal repayments. COF is a new centralized financial institution established to exclusively fund worker co-operatives. The credit society option, however, is based on established co-operative financial institutions, a decentralized credit co-operative movement and in Victoria an excess liquidity of approximately \$200 million.

- 1.10.3 An understanding of and commitment to industrial/economic democracy principles and practices.
- 1.10.4 Actual/proposed workforce and union commitment to and support for co-operative establishment/conversion.
- 1.11 Encouragement of co-operatives based on the criteria (1.10) is essential if start-up and conversion worker co-operatives are to demonstrate and practice democratisation of work and workplaces and maintain and/or create jobs.
- 1.12 Economic viability , co-operative and democratic work and workplace practices must be considered inter-dependent if assistance for co-operatives is to be justified. While economic viability is the vital criteria, an overriding emphasis on this could result in the distortion and denigration of co-operative and industrial/economic democracy principles and practices. While the co-operative programs in both Victoria and N.S.W. are limited in scope, the application of this experience is fundamental to the structure and operations of conventional business enterprises.
- 1.13 The experience with conversion co-operatives in the U.S.A is that unless adequate consideration and planning is given to democratic structure and practice, then, the co-operatives tend to revert to conventional business principles and practices.
- 1.14 Co-operatives should not be seen as a variant of a traditional business enterprise. If policies and programs were based on this assumption this would de-democratise co-operatives and re-introduce the unsatisfactory economic and organisational imperatives and criteria which characterise conventional business enterprises and agencies.
- 1.15 It is essential that co-operatives should not be seen as an alternative for occupying the unemployed in sub-economic and non-economic forms of activity and reducing the demand for conventional jobs. The distortion of co-operatives into short-term job creation schemes would damage the existing co-operative enterprises, stultify the possibility for creating and maintaining jobs in the long-term and hinder the development of a revitalised co-operative movement committed to industrial/economic democracy and developing linkages with the labor movement.
- 1.16 The point about co-operatives is that they challenge conventional work and workplace practices and demonstrate alternative possibilities for ownership and control. These possibilities are critically dependent on committed and disciplined workforces who understand and accept the economic, social and political significance of democratised business enterprises.

2. SUCCESS CRITERIA.

It is considered that the following factors are critical to the success of co-operative business enterprises and, therefore, their survival as organisationally viable co-operatives and economically viable business enterprises.

- 2.1 Its central objective is to establish an economically viable co-operative business.

While co-operatives should also aim to create and/or maintain jobs, this must be subsidiary to the primary objective of establishing and developing an economically viable co-operative business.

If creating and saving jobs becomes the central objective, then, the basis for support will be distorted . Jobs will be saved and created temporarily but not permanently because neither the co-operative nor the business is viable.

- 2.2 There is an understanding of and commitment to co-operative principles and practices.

Co-operatives are a democratic form of business enterprise and there are a number of co-operative characteristics which need to be understood - democratic ownership, self-help, constant share value, low interest on member equity, co-operative education and co-operation between co-operatives. There are, then, significant characteristic differences between co-operatives and conventional business enterprises.

It is important to avoid the seductive appeal of funding a potentially economically viable business and assume that the co-operative character of the business could be developed over a period. Many co-operatives fail because of the absence of a commitment and consensus on co-operative principles and practices and/or the inability and/or unwillingness to develop a commitment and a consensus.

- 2.3 A commitment to industrial/economic democracy principle and practice.

Industrial (work) and economic (workplace) democracy are not inherent to co-operative principles and practices. The majority of the conventional co-operatives in Australia do not understand support work and workplace democracy.

Without an understanding of, commitment to and implementation of work and workplace democracy co-operatives tend to revert to conventional business philosophy and practices despite the theoretical and legal differences between co-operatives and conventional business enterprises.

2.4 A commitment to unionisation of the co-operative's workforce.

The difficulties incurred in the establishment and development of start-up and conversion worker co-operatives are aggravated by the traditional co-operative movement which is opposed to Government funding of co-operatives, suspicious of the intervention of the State, not concerned with the principle and practice of industrial/economic democracy and does not identify with the labor movement.

Worker start-up and conversion co-operatives do however, identify with the labor movement although this, in the case of start-ups is not necessarily translated into union membership.

Unions could help co-operatives and co-operative workers by arbitrating in disputes between individual workers and co-operative management/board, preventing self-exploitation of co-operative workers by ensuring adherence to award wages and conditions, monitoring occupational health and safety provisions, protecting the democratic commitments and practices, informing unionists about labour owned and controlled enterprises, identifying conversion co-operative possibilities and protecting co-operatives from economic discrimination and boycott.

Co-operatives can assist trade unions by providing model vehicles for local and/or worker and/or trade union ownership and control of workplaces. Co-operatives can be an important form of long-term community economic development retaining wealth and the control of jobs within local communities and producing for local needs.

The future development of worker co-operatives is critically dependent on the development of an effective relationship with the labor movement. It is critical, therefore, that the appropriate unions be involved in the establishment and development of co-operatives.

3. CO-OPERATIVE PRINCIPLES

Co-operative business organisation is based on five main principles:

- Open and voluntary membership.
- Democratic control.
- Limited interest on share capital.
- Fair distribution of surplus (profit).
- The promotion of education.

In essence these principles provide a democratic framework for co-operatives.

The Victorian experience is that there are a number of unresolved issues flowing from these principles and their resolution is not simply the outcome of a longer time period involved in establishing and developing co-operatives.

Self-help, independence from Government and worker/member equity are advocated by the traditional co-operative movement as critical to the establishment, development and integrity of co-operatives.

Before examining the assumptions behind and consequences of these concepts it would be useful to examine their historical basis and this could assist in assessing their continuing appropriateness.

The beginnings of the co-operative movement can be traced to the 28 weavers of Rochdale, England, who established their store in Toad Lane in 1844. It is important to note that the Rochdale Pioneers and their pre-cooperative predecessors saw co-operativism and socialism as indistinguishable.

While the pionerers of this consumer co-operative also intended to establish producer co-operatives (worker owned and controlled), the success of the store led to the rapid development of consumer co-operatives and the virtual abandonment of worker co-operatives. There were sporadic attempts throughout the 19th C to establish worker co-operatives but these were not supported by the expanding consumer co-operatives who opposed employee participation.

It is important, therefore, to briefly consider the historical circumstances of the time. The market economy was developing, the State marginally intervened in the operations of the economy to assist capital and it was inconceivable that the State would even consider assisting the labor movement in developing their own business enterprises.

In understandable reaction to these historical circumstances, it was inevitable that the developing co-operative movement, assisted by laissez-faire ideologues, emphasised self-help (because no-one would help the co-operatives), independence from Government (because the Government was opposed and incapable) and equity (because no financial assistance was available from financial institutions and Government).

The principles of self-help, independence from Government and equity, then, were defined and articulated by an expanding consumer co-operative movement which opposed and continues to

oppose worker ownership and control. Equity in particular has undergone an interesting historical development. The co-operative socialists conceived of equity as a principle of justice and not as a required financial commitment from workers/members. The subsequently developed rural-based farmer co-operatives adopted the consumer co-operative principles and assumptions.

The purpose of this brief historical scan is not to devalue the significance of self-help, independence from Government and worker/member equity but to situate these principles in their historically determined context and argue that their application needs to be within the context of current and future rather than past historical circumstances.

Self-help: Self-help should be encouraged and facilitated but it is unrealistic to assume that in an increasingly organisationally and technologically complex and interdependent society this means minimal assistance.

Independence from Government: Co-operatives need to develop a new relationship with Government based on interdependence rather than independence. The State is not independent and it is not possible to behave as if the State did not exist and that its activities did not impact on co-operatives. In both France and Italy specific Government legislation and policies discriminates in favor of co-operatives.

Worker/Member equity: This is perhaps the most difficult and controversial expectation of worker co-operatives. Worker/member equity is usually perceived as a measure of commitment and an incentive to maintain that commitment. The effect of high worker equity requirements, however, could be to convert co-operators into capitalists who would renege on their democratic and social origins and, therefore, the democratic significance of co-operatives would be diluted and deflected. High equity tends to transform the personal rights of a co-operator into the property rights of a capitalist. Trade unions are unlikely to support co-operatives that are not based on protecting and developing the rights of workers.

4.RECOMMENDATIONS

1. That Commonwealth support be given to a national co-operative development program.
2. That the programme be administered by State Governments.
3. That support under the program be provided for co-operatives and co-operative proposals which:
 - 3.1 Demonstrate actual and/or potential economic viability within a three year period.
 - 3.2 Demonstrate a commitment to co-operative principles and practices.
 - 3.3 Demonstrate an industrial/economic democracy commitment and/or practice.

4. That funding be provided for:

- 4.1 The establishment and development of independent Co-operative Development Agencies in each State.

The membership of the independent Boards of these Agencies would be worker co-operatives (2), housing co-operatives (2), credit co-operatives (3), trade unions (3), State government (3) and three others.

- 4.2 The establishment and development of co-operative education and training programs in each State.

A co-operative education and training program is being developed in Victoria and would, therefore, provide a useful basis for the development of similar programs in other States. The course is still being developed and it is not presumed that the course should simply be adopted by other States.

- 4.3 The provision of loan and grant funds for the establishment of independent co-operative funding bodies in each State.

N.S.W. has established Common Ownership Finance Company Ltd. Victoria perceives inherent limitations with the adoption of this model and, therefore, has commissioned a study into this and other options. The option favored by the credit movement in Victoria and N. S.W. is the usage of existing credit societies which would provide a broader base, a decentralized organisation and a funding multiplier consequence.

5. That structural arrangements for the delivery of assistance be similar in all states and that these be based on:
 - 5.1 Independent financial and technical assistance.
 - 5.2 Co-operative and trade union control of these arrangements subject to appropriate accountability.
 - 5.3 Existing structural arrangements which exist in different States.
6. That a commitment be made to provide resources for a minimum of five years.
7. That support be given to legislative changes which facilitate industrial/economic democracy in co-operatives.
8. That consideration be given to how taxation legislation could encourage the establishment and development of worker co-operatives.

N.S.W. WORKER CO-OPERATIVE
DEVELOPMENT COMMITTEE DISCUSSION
PAPER: GOVERNMENT SUPPORT FOR
WORKER CO-OPERATIVES

There are points of agreement and disagreement with the N.S.W. document on Commonwealth Government support . A number of the N.S.W. recommendations give cause for concern given

Victorian experience with the establishment and development of co-operative business enterprises. Specific reservations, therefore, are offered concerning recommendations 2,3,4 and 10.

Recommendation 2. That the programme be administered by the Commonwealth and not be a Commonwealth-State partnership.

The basis of this recommendation is neither identified nor stated. Presumably, however, there is concern that State administration is unsatisfactory and that Commonwealth administration is preferable. The N.S.W. experience is not adequately known, but based on our own experience it is believed that there are advantages in a State administration. It is believed that Commonwealth administration would initiate an undesirable centralization of a program which needs to be decentralized if it is to remain appropriate and relevant. There is Victorian Government support for the establishment and development of co-operative business enterprises and, therefore, there is no expectation that the Commonwealth will be able to fill a vacuum that the State Government is unable and unwilling to meet. If there are commitment difficulties in other State's, then, the activities and effectiveness of the Victorian Government should not be jeopardised and overridden.

Recommendation 3. That such a programme be exclusively to assist worker co-operatives, and be clearly separated in both administrative guidelines and resources from any other programme.

While the basis of this recommendation is understood, it cannot be fully supported at this point of time. It is agreed that the basis of assistance for worker co-operatives should be clearly separated from the basis of support for other co-operatives. It is not agreed, however, that support for co-operatives should be exclusively directed towards worker co-operatives. The Victorian experience is that there are economically viable co-operatives which are community owned and controlled. It is agreed that in allocating resources priority should be given to start-up and conversion worker co-operatives. In Victoria priority is being given to the development of conversion co-operatives. It is also agreed that support should not be indiscriminately made available to organisations which are co-operatives simply because they are co-operatives and that the basis of any support should be based on clear and consistent policies, objectives and guidelines.

Recommendation 4. That programme guidelines recognise the programme as a business and employment development programme and limit assistance to viable business propositions which will operate strictly as worker co-operatives.

It is agreed that the programme should emphasise business and employment development but, then, it is considered that this concept is limiting. In Victoria emphasis is placed on three inter-related requirements - actual and/or potential economic viability, co-operative principles and practice and industrial/economic democracy commitment and practice. This point is separately noted on p 2 of the N.S.W. Discussion Document: Worker co-operatives offer a highly advanced model of industrial democracy. It is our belief that the democratisation of work (industrial democracy) and workplaces (economic democracy) is critically important and that effective and successful models could have a far-ranging long-term impact on conventional business enterprises.

Recommendation 10. That structural arrangements for the delivery of assistance be similar in all states, and that these be based on the "N.S.W."

The intention of this recommendation is unclear as to whether or not the principle or the practice of the N.S.W. model is being advocated. The principle of the N.S.W. model is independent technical and financial assistance agencies. But, in practice it is the specific Common Ownership Development Agency and the Common Ownership Finance Company. Victoria's own experience and observations of the N.S.W. program is that the N.S.W. model is not necessarily the most effective and appropriate - at least for Victoria. Victoria's present technical assistance is based on the education system (TAFE and CAE) and the financial co-operative expertise of a credit society. It is expected that the long-term technical assistance needs of co-operatives will be a modification rather than a rejection of this approach. Consideration is being given to the establishment of an independent Co-operative Development Agency representing co-operative and trade union interests. How the present technical assistance would relate to a CDA is under examination.

The implicit or explicit N.S.W. advocacy of the establishment of a Common Ownership Finance Company is disturbing. The same Evaluation Steering Committee has identified five options for providing further and future financial assistance for co-operatives: financial assistance through the Ministry for Employment and Training; financial assistance provided by and/or through the Small Business Development Corporation; promoting access to traditional financial institutions; developing access to Co-operative Credit Societies; and, establishing a specific financial institution e.g., a company such as Common Ownership Finance Pty Ltd in N.S.W. A feasibility study has been established to consider these options. It is considered that long-term financial assistance through credit societies will be more effective and significant than the small capital based finance company established in N.S.W.